



Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

December 30, 2009

Ms. Waverly Seward
Manager of Pension Administration
Shelby County Government
160 North Main Street, Suite 950
Memphis, TN 38103

Re: Proposed Plan B COLA

Dear Waverly:

Per your request, we have determined the actuarial impact of a resolution to amend Shelby County Retirement System Plan B to add an automatic Cost-of-Living Adjustment (COLA) for certain retirees and survivors. Plan B currently does not provide for any automatic COLAs to pensions. However, from time to time the County Commission does enact, through resolution, ad-hoc COLAs or bonuses to certain categories of retired participants and beneficiaries.

The proposed automatic COLA shall be payable on January 1 of each calendar year to the pensions for the following Plan B retirees and beneficiaries and under the following terms and conditions:

- 1) Service retired participants who (i) have attained age 65, (ii) completed 25 years of Credited Service prior to termination, (iii) have been retired and receiving benefits for 10 years before such January 1, and (iv) have a monthly pension for the first month in which they are eligible for the COLA less than \$3,000.
- 2) Disability retired participants who have a monthly pension for the first month in which they are eligible for the COLA less than \$3,000.
- 3) Surviving Spouses (i) who have attained age 65, (ii) where the original Participant completed 25 years of Credited Service prior to termination or whose death was a Line of Duty Death or whose pension had been a Disability Pension, (iii) where the Participant's termination was at least 10 years before such January 1, and (iv) who have a monthly pension for the first month in which they are eligible for the COLA less than \$3,000.

3550 Busbee Pkwy, Suite 250, Kennesaw, GA 30144

Phone (678) 388-1700 • Fax (678) 388-1730

www.CavMacConsulting.com

Offices in Englewood, CO • Kennesaw, GA • Hilton Head Island, SC



December 30, 2009
Ms. Waverly Seward
Page 2

- 4) Surviving Children (i) where the original Participant completed 25 years of Credited Service prior to termination or whose death was a Line of Duty Death or whose pension had been a Disability Pension, (ii) where the Participant's termination was at least 10 years before such January 1, and (iii) who have a monthly pension for the first month in which they are eligible for the COLA less than \$3,000.

In no event, however, will the Plan B benefits exceed 100% of the Participant's Final Average Earnings. The COLA to each eligible pension as of January 1 of each calendar year shall be the lesser of (a) 1% or (b) the percentage increase in the CPI-U during the 12 month period ended on the preceding September 30.

We have based this cost analysis on our valuation results as of July 1, 2009. In Plan B, there are a total of 1,265 participants receiving benefits, 51 active participants and 6 terminated with deferred benefits. In our cost analysis and projection, we have assumed the following assumptions:

- A fixed 30-year amortization period is used to amortize the Unfunded Accrued Liability (UAL) beginning June 30, 2010.
- Payroll will increase by 3.5% in the future for all Active Participants.
- The Annual Required Contribution (ARC) will be made each year in the future.

Below are the estimated Annual Required Contributions for a 20-year projection period (every 5th year). We have also shown the increases in the UAL and estimated ARC for this proposed resolution.

	Valuation as of June 30, 2009	Proposed Resolution	Increase
Unfunded Accrued Liability (UAL) (\$ thousands)	\$(61,363)	\$(52,913)	\$8,450
Estimated Employer Annual Required Contribution (ARC) for Fiscal Year Ending 6/30/YYYY (\$ millions)			
2011	\$19.6	\$20.7	\$1.1
2016	53.2	54.0	0.8
2021	76.2	77.0	0.8
2026	82.7	83.5	0.8
2031	86.9	87.7	0.8



December 30, 2009
Ms. Waverly Seward
Page 3

Please let us know if you have any questions or need any additional information.

Sincerely,

A handwritten signature in cursive script, reading 'Edward J. Koebel'.

Edward Koebel, EA, FCA, MAAA
Senior Actuary

EK/:bm